

# City of Detroit


## CITY COUNCIL

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TO: Shirley V. Lightsey, President  
Detroit Retired City Employees Association

FROM: Irvin Corley, Jr., Fiscal Analysis Director 

DATE: April 25, 2006

RE: 2006-2007 Budget Analysis

Attached is our analysis regarding your budget request for the upcoming 2006-2007 Fiscal Year.

Your Budget Hearing before Council is scheduled for Wednesday April 26, 2006, at 3:00 P.M.

Please contact us if you have any questions regarding our analysis.

Thank you for your cooperation in this matter.

IC:cyb

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General's Office  
Roger Short, Interim Chief Financial Officer  
Pamela Scales, Budget Director  
Renee Short, Budget Department  
Walter Stampor, Retirement System Manager  
Barbara Wise Johnson, Labor Relations  
Kandia Milton, Mayor's Office

## **Detroit Retired City Employees Association**

### **FY 2006-2007 Budget Analysis by the Fiscal Analysis Division**

#### **Detroit Retired City Employees Association (DRCEA) 2006-2007 Improvement Proposal and Costs**

In the DRCEA's letter to the City Council dated April 5, 2006, the association requested funding be provided for two retiree benefit improvements.

We believe these improvements would only be for the 700 retirees that are below the Federal poverty income level.

1. A New Minimum Pension Formula - \$1.698 million estimated first-year cost
2. Payment of monthly Medicare co-pay - \$744,000

The DRCEA may limit their request to only the improvement to the minimum pension formula. The DRCEA understands the financial challenges facing the City of Detroit at this time and withdraw the request to reduce the medical insurance co-pay for retirees who retired between July 1994 thru June 1996, a two-year period.

**New Minimum Pension Formula** – Currently the formula to calculate the minimum pension is: “in no case shall the total of the annual Straight Life Pension be less than three hundred sixty dollars (\$360.00) times each of the first ten years of service at retirement plus one hundred twenty dollars (\$120) for each year of service in excess of ten years.”

The retiree association is requesting that the minimum pension be increased to \$30 per month for every month of service.

Years of Service at Retirement	Current Minimum Pension	New Minimum Pension	Increase
10	\$3,600	\$3,600	-0-
15	4,200	5,400	28.57%
20	4,800	7,200	50.0%
25	5,400	9,000	66.6%
30	6,000	10,800	80.0%

We were not given a copy of the actuarial study, but the association has written that the first year cost is estimated to be \$1.698 million. Due to the lack of information, we are unsure if that is the first-year cost for all funds or the cost to the General Fund. We also don't know what the complete cost is for the benefit or how much it would increase the unfunded accrued actuarial liability (UAAL) due to increasing benefits for existing retirees.

The retiree association has also suggested a modified increase that is less expensive. In this case every month of service (after the first 120 months at \$30) would be a minimum pension of \$20, which would result in a straight life pension of \$6,000 for a twenty-year employee and \$7,200 for a thirty-year employee. The first year cost for this plan would be \$850,000.

This above retirement benefit increase is an example of one of the items that must be considered when pension obligation bonds are issued by a municipality. There is a perception that the UAAL goes away when funded by the pension obligation bonds. This is true only at that point in time. Retirement improvements after the sale of the bonds will create additional or new UAAL. And the City will find itself in the position of paying off the debt plus having to fund the additional UAAL created by retirement benefit increases. Of course, the UAAL may also increase if the assumed investment earnings or other assumptions do not match actual results over time.

**Supplement Payment by the City to cover Medicare Payment for lowest compensated Retirees** – Currently, every retiree who becomes Medicare eligible must pay a fee for that out of their Social Security check. It recently increased from \$78.20 per month to \$88.50 per month, which is an 11% increase. The retiree association proposes that the city provide a monthly supplement of \$88.85 for the 700 retirees who receive minimum pensions. The annual cost would be \$744,000.

#### **Questions for the Retiree Association**

1. Can we get a copy of the actuarial report?
2. Can we get a chart showing the number of retirees that refer to these proposals and the breakdown by years of service, age of retirees, year retired, pension amount currently being received.
3. Can we get a history of thirteenth checks that have been issued to retirees?

IC:JGP